Multi-Act Equity Consultancy Pvt. Ltd.
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CIN: U67120PN1993PTC074692

Date: 2nd April 2018

Dear Investors,

Below is the performance of the Moats & Special Situations Portfolio (MSSP) as of 31st March 2018.

Portfolio Performance	Equity Allocation as on 31.12.2017	Total Portfolio Returns	Benchmark Returns
Since Inception (annualised)		16.7%	10.6%
January-March Quarter	~88%	1.5%	-8.1%
1st April 2017 – 31st March 2018		20.0%	12.5%

- Benchmark is an average of the BSE 500 and BSE Mid Cap index.
- Equity allocation mentioned above is for older accounts. For new accounts, equity allocation is ~58%.
- Returns are time weighted and after management and performance expenses.
- The actual returns of clients may differ from client to client due to different portfolio and timing of investment.
- Past performance is no guarantee for future performance.
- Inception Date is 27th January 2011.

After a period of almost fourteen months, volatility returned to the equity and bond markets both in India and globally. Post a very strong CY 2017, markets peaked in January 2018 and since then we have seen a sharp correction across indices. The strengthening US economy is putting pressure on years of an "easy" monetary policy. US President Donald Trump's "trade war" is another factor contributing to the volatility. Valuations were stretched across the broader markets and both these factors acted as a catalyst in triggering the correction. On the domestic front, BJP's defeat in UP by-polls has created some uncertainty in the market and an overhang perhaps for overpriced markets. While domestic fund flows continue to be robust with the markets correcting one needs to watch whether momentum continues.

Amongst this correction what we think is worthwhile to note is that our portfolio has so far managed to hold its ground even with high equity exposure. Our portfolio had also however, not participated completely in the post demonetization rally. In the past couple of quarters though, we have started to see earnings visibility improve for several of our portfolio holdings. In fact, commentary from business owners have been positive and they are clearly seeing signs of an uptick in terms of demand. If anything, underlying demand may be better than the reported numbers considering that the wholesale trade channel has been severely impacted post the GST introduction. We have also seen credit growth pick up amongst the large private sector banks especially on the retail front, though on the other hand the PSU banks continue to struggle with asset quality and have not been able to grow their loan book. The recent episode of the PNB-Nirav Modi scam served only to worsen lending sentiment, if anything.

In summary we are clearly seeing signs of a micro level improvement co-incident with emerging possible macro level challenges. In the past 1 ½ years we have built a contrarian portfolio of companies which had what we believed were near term challenges and hence we were able to acquire companies at attractive valuations. But with improving visibility in some of these individual stocks, we believe we might have seen the worst for the portfolio which is now well placed albeit in a market scenario which could be quite volatile in the short to medium term.

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How is our portfolio placed in a Volatile market environment?

Volatility is often associated with "risk". As we have discussed in the past, we prefer to look at "Permanent loss of Capital" as the real risk. But volatility *can* induce "permanent loss of capital" in some cases. For instance, an investor in a bull market seeing an ever-improving ratio of winners over losers could be lulled into a sense of complacency. In turn an investor may end up either overpaying for a business or commits to a below-average quality business. When volatility strikes such mistakes could come back to haunt an investor. If he has over paid for a business that stock might not participate in a subsequent market recovery and could ultimately lead to a "permanent loss of capital". Another possibility is that volatility scares investors and forces him to convert a temporary mark-to-market loss into permanent loss of capital by selling at the wrong time. Both the points discussed above are behavioral issues. One building up before volatility strikes and the other afterwards.

By contrast we would like to examine these two aspects in our portfolio. Firstly, we invest ONLY in the Quality space and we believe we will never compromise on quality, even in face of short term relative underperformance in a frothy market. For the last 1 ½ years it was difficult to find good quality companies at reasonable valuations, due to the prevailing market environment. The opportunities that we added to the portfolio were good quality businesses, facing temporary issues and thus were available at good to fair valuations. This strategy was likely to underperform in a liquidity and momentum driven market. To us though we were able to stay true to our discipline of value and quality.

Secondly, it is the ability to stick to a process through rough times. We believe lower drawdowns not only helps us as investors to bounce back quicker, but more importantly provides you (as our investors) the staying power from a behavioral perspective.

Past Volatility Events and Drawdowns (Peak to Trough returns):

Past Drawdowns	Reason for Volatility	MSSP	NIFTY	Benchmark
Dec-11	Indian Economic Slowdown	-8.5%	-23.0%	-28.0%
Aug-13	India CAD & Taper Tantrum	-12.1%	-15.0%	-22.0%
Feb-16	China Slowdown Fear	-9.5%	-22.4%	-18.5%
Dec-16	Demonetisation	-7.1%	-11.7%	-13.5%
Current	Reflation/Trade Wars	-5.0%	-9.3%	-11.1%

We believe that the process driven approach that we follow at Multi-Act helps all of us against such behavioral pitfalls in volatile times. Furthermore it ensures that we don't convert a "perceived risk" (volatility) into an actual one (permanent loss of capital).

Asset Allocation:

Our overall equity weights in the quarter have moved up to 88%. With the recent correction in the markets we have been able to identify new businesses which have entered the portfolio. In accounts that would have come to us in the last one-year portfolio would be at ~58% equity weights.

At any given point of time what we believe is of utmost importance is the prospective return of the portfolio. Being asset allocators, we tend to gravitate towards equity only when the prospective return starts becoming attractive, instead of holding on to stocks only because they are good businesses. This holds truer especially when stocks are expensive and companies lack any earning momentum. All this

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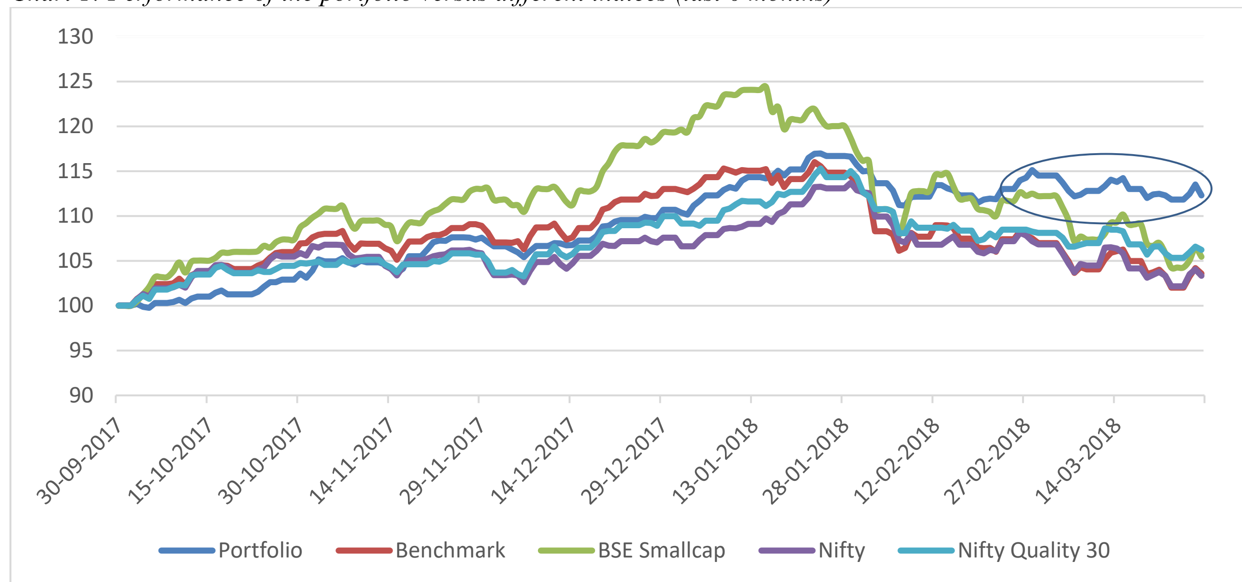
helps in protecting the portfolio from drawdowns. The chart below highlights the drawdowns in our portfolio compared with all major indices having corrected sharply since the peak in Jan 2018.

Chart 1: Performance of the portfolio versus different indices (last 6 months)



Portfolio Activity:

Business Model and Sector Allocation:

Moat/Limited Moat	Jun-17	Sep-17	Dec-17	Mar-18
Moat	34%	33%	38%	37%
Limited Moat	39%	41%	37%	40%
Moat + Limited Moats	***73%***	***74%***	***75%***	***77%***
Special Situations	20%	20%	19%	20%
Regulated Utility	7%	7%	6%	3%
Grand Total	**100%**	**100%**	**100%**	**100%**

Sectors	Jun-17	Sep-17	Dec-17	Mar-18
Information Technology	21%	21%	21%	21%
Pharma	11%	11%	15%	18%
FMCG	16%	18%	18%	17%
Financials & Financial Services	20%	18%	16%	13%
Auto & Auto Ancillaries	12%	12%	11%	11%
Capital Goods	6%	8%	7%	8%
Materials	6%	6%	6%	7%
Utility	7%	7%	6%	3%
Media	-	-	-	2%
Industrials	2%	-	-	-
Grand Total	**100%**	**100%**	**100%**	**100%**

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Portfolio Activity during the quarter:

As highlighted in the sector allocation our pharma weights have moved up. We have owned two names; one caters primarily to the Indian market and the other is a CRAMS player supplying to innovators globally. We have been averse to invest in generic pharma companies so far as they have been historically valued as though they enjoyed significant competitive advantages (Economic Moat). We haven't been able to clearly identify the competitive advantage if any. In the last couple of years there has been significant consolidation in the procurers (Pharmacy Benefit Managers (PBMs)-as they are referred to) of generic pharma products in the US. Secondly, the US regulator (USFDA) has accelerated generic drug approvals which has increased competition. This has led to significant pricing pressure on the generic pharma companies in the US market. We believe these issues are largely structural in nature. We initiated an investment in a generic pharmaceutical company as a special situation. The company that we have added to the portfolio has only slightly more than 1/3rd of the Revenue coming from the US market as compared to 50% a couple of years back. They have a very strong India pharma business and they are expanding in other regions as well. They spend close to 12% of Revenue on R&D which is one of the highest in the Industry. The focus of management going forward is to target the R&D spend on hard to crack products in the US generic space, so that such products wouldn't have significant competition from other generic players and thus pricing pressure would be limited. Short term business visibility is limited, but if we look at from slightly longer-term perspective, we believe we are getting the Non-US franchise piece of the business at a reasonable valuation. For the headwinds discussed above, we are getting the US business at a discount and if the US strategy works out as management has envisaged there is reasonable upside for that piece.

We have taken an initiating weight in a Hindi Newspaper company. Globally there has been a structural trend wherein advertising spend is shifting from newspapers to other media (TV, Digital etc). We are witnessing a similar trend in the domestic market as well. But within this macro trend, the micro trend is that of Hindi and Vernacular newspaper segments growing and gaining market share from English newspapers in terms of ad spend. The company that we have added has a strong position in the regions that it caters to. Almost 2/3rd of the Ad spend for this company is from local advertisers (region/district specific ads) and of this, half would be hyperlocal (town/city specific ads). These ads spend are not completely amenable to TV or Digital advertising today. Thus, the structural headwind that newspaper companies are facing globally would not apply to the same extent to this company and its peers. Another important aspect is that a newspaper that has significant readership market share in a particular town/region would also capture a disproportionate share of the print ad spend in that particular region. As an individual does not read more than 2 newspapers, each town/city would have 1-2 dominant players who would attract majority of the readership and thus majority of the ad spend. Remaining newspapers would find it difficult to survive as they would hardly get any ad revenue share. The readership scale benefit also gives some level of pricing power to the top player. An advertiser is only interested in how many impressions he is able to make as compared to the amount he is spending on advertising (his return on investment). An advertiser won't advertise on a less read newspaper just because there is a discount. This provides a competitive advantage to a dominant player in the region. Thus, our company, which has a dominant position in multiple markets is well placed we believe with a pick-up in the economic environment.

We exited SBI in the current quarter. We had entered SBI a couple of years back when it was available at a distressed valuation wherein the market had factored in complete write-off of all its NPAs and also all the restructured assets. We had been trimming that weight after the stock had moved up substantially, but we continued to hold a residual weight as we believed the Bankruptcy Code implementation would ultimately lead to resolution of some of the stressed assets. Incremental information in the last two quarters

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led us to rethink that residual weight. SBI was never a buy and hold investment. Fortunately, our decision to exit SBI came just before the PNB Scam impacted the entire sector.

We also exited SJVN, a regulated utility. The decision to exit SJVN was on valuation as the company came out with a buy back offer at a good price.

Regards,

Jinal Sheth	Rohan Samant
Sr. Portfolio Manager	Portfolio Manager

Statutory Details: Portfolio Manager – Multi-Act Equity Consultancy Private Limited (Registration No. INP000002965)

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Risk factors
General risk factors

a. Securities investments are subject to market risks and there is no assurance or guarantee that the objective of the investments will be achieved.

b. Past performance of the Portfolio Manager or its affiliates does not indicate its future performance.

c. Investors are not being offered any guaranteed or assured returns i.e. either of principal or appreciation on the Portfolio.

d. As with any investment in securities, value of the Client's Portfolio can go up or down depending on the factors and forces affecting the capital market.

e. The Portfolio Manager is neither responsible nor liable for any losses resulting from the operations of the Portfolios.

f. The investments made are subject to external risks such as war, natural calamities, and policy changes of local / international markets which affect stock markets.

g. The Portfolio Manager has renewed SEBI PMS registration effective October 14, 2014 and has commenced its portfolio management activities with effect from January 2011. However, the Portfolio Manager has more than 10 years of experience in managing its own funds invested in the domestic market.